



# Economics Group

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## Industrial Production Held Down by Utilities in October

*Industrial production was unchanged in October, but weakness was confined to the utilities sector. Output in mining and manufacturing rose over the month and point to modest improvement in the industrial sector.*

### Better than It Looks

On the surface, today's industrial production report looks like another blow to a sector that has been struggling for more than a year now. Industrial production was flat in October, missing even modest expectations for a 0.2 percent gain. What's more, instead of an uptick in September, revisions show that production actually fell 0.2 percent in the final month of Q3.

Peeling back the layers, however, shows that recent conditions are not as weak as the headline and revisions would suggest. Mild fall weather after a hot summer has dampened utilities output the past two months. An important source of the downward revision to industrial production in September was utilities output falling 3.0 percent versus an initially reported decline of 1.0 percent. Utilities output fell another 2.6 percent last month as the warmest October since 1963 kept households from switching on their heat in much of the country.

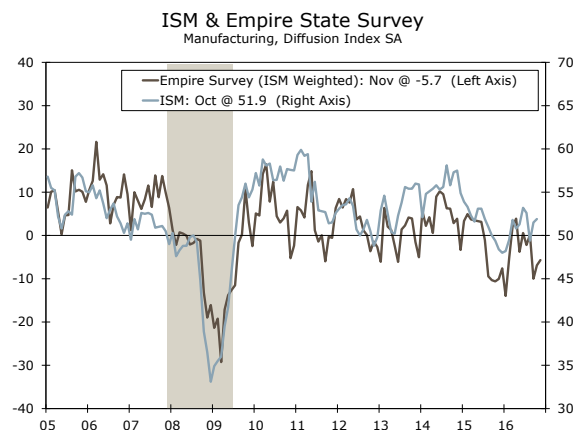
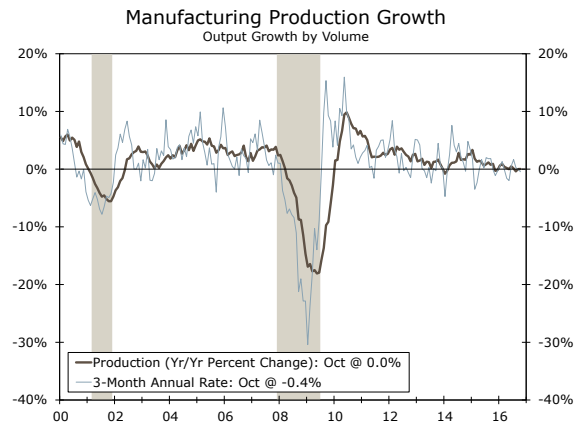
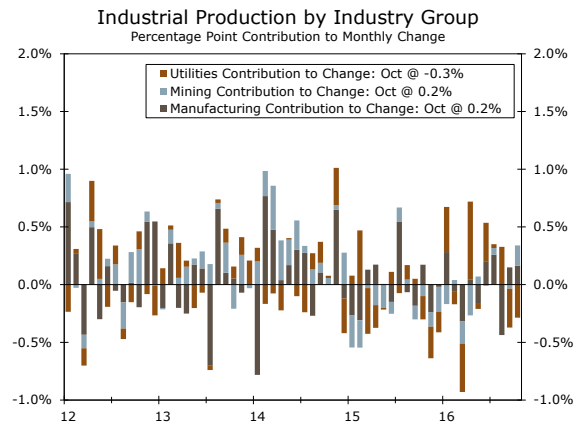
Activity in the mining and manufacturing sectors, better short-term bellwethers of production trends, increased over the month. Although production in the mining sector is now reported to have fallen 0.4 percent in September versus an initially reported gain of the same magnitude, output more than recovered in October, rising 2.1 percent.

The manufacturing sector, the juggernaut of industrial production at nearly 80 percent of output, put up another modest gain of 0.2 percent in October. Supporting the rise was another strong month of production in the auto sector (+0.9 percent) and solid increase in computers & electronics (+1.2 percent). Total durables production was up 0.4 percent, while production of nondurable goods was flat.

Even with the gains of recent months, the trend in manufacturing remains largely sideways; total manufacturing production is only even with its year-ago level. With the global economic backdrop more stable and growth set to pick up in the United States, however, we expect to see activity in the manufacturing sector to improve a bit in the coming months.

### Empire Survey Also Points to Modest Factory Sector Gains

While still early in the month, the first read on manufacturing activity for November shows momentum continues to improve. The Empire State Manufacturing Index for November moved into positive territory for the first time in four months. New orders rose at the fastest pace since June, while shipments rose for the first time since August. Tempering the report, however, was a fourth consecutive decline in manufacturing employment and sharper contraction in inventories. On an ISM weighted basis (the headline is derived on a separate question on general businesses conditions), the Empire State survey remains in contraction territory, but weakness has moderated over the past two months.



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